HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Regina CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts to advance in 2012, moderate in 2013

In 2011, a strengthening economy characterized by job growth of 3.3 per cent, rising incomes, and elevated in-migration reinvigorated demand for housing across the Regina Census Metropolitan Area (CMA). In response, regional builders started 1,694 housing units in 2011, up 26 per cent from the prior year. Along with the notable year-over-year gain, last year's production marked the highest annual tally of starts since 1983. In 2012, continued improvement in economic and demographic conditions will fuel gains over last year's strong performance, propelling annual production to 2,150 housing units, the highest level since 1979. Next year, elevated new home supply particularly

Figure 1

Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 27, 2012.

[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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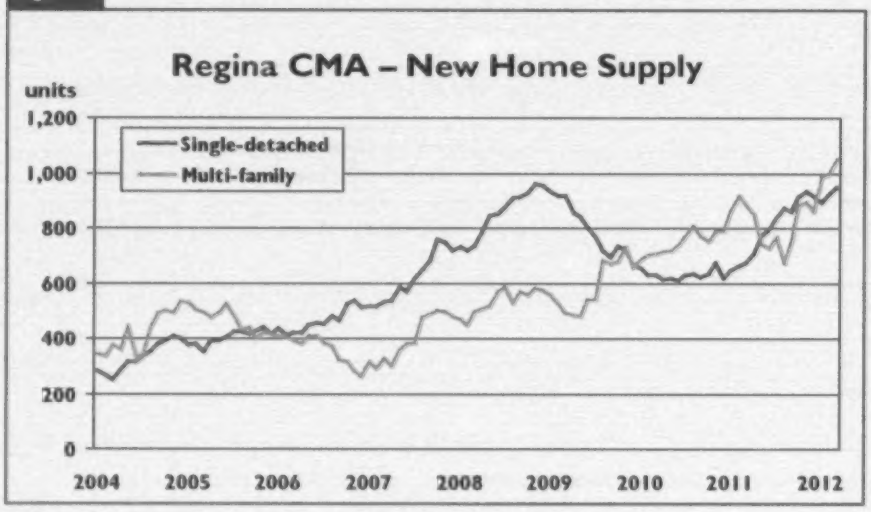
completed and unabsorbed multi-family units will compel regional builders to temper the pace of production. As a result, total starts will decline seven per cent to 2,000 units in 2013, the second highest since 1979.

Regina's builders have made a bustling start to 2012, aided in part by unseasonably warm winter conditions. To the end of March, housing starts in the CMA totalled 740 units, more than double the pace set in 2011. The upturn in activity was particularly evident in the multi-family housing category, where first quarter starts of 500 units marked more than a three-fold increase from the corresponding period in 2011. Over the balance of the year, however, continuing advances in the cost of new homes along with an elevated supply of new units will inhibit the gains moving forward. As well, a slower pace of resale price growth is expected this year and next. This, in conjunction with the wide choice of listings in the competing resale market, will prompt some prospective buyers to turn to an existing unit to meet their housing needs.

Notwithstanding the factors above, total housing starts in Regina will remain buoyant over the course of the next two years, supported by sustained job and wage growth and strong migratory in-flows. In addition, relatively low mortgage rates through 2013 will continue to encourage prospective homebuyers and spur new home production. Added to this, public sector incentives in the form of first-time homebuyer tax credits, along with financial incentives designed to boost rental construction, will contribute to elevated new home construction. Collectively, these factors will counter the effects of advancing new house prices and elevated new and resale supply levels, and help maintain a strong pace of new home construction over the course of the next two years.

Figure 2



Source: CMHC

Single-detached starts to exceed 1,000 units in 2012 and 2013

In 2011, the addition of about 4,000 full-time positions supported wage growth of 6.6 per cent, factors that helped sustain relatively strong levels of in-migration. These labour market conditions, along with historically low mortgage rates, bolstered demand for single-detached homes across the region. Consequently, following 708 starts in 2010, homebuilders began construction of 958 single-detached units in 2011, an increase of 35 per cent. Over the forecast period, single-detached starts will remain elevated as continued employment and household growth combine to propel annual starts in this segment to 1,050 units in 2012 and 2013.

So far this year, Regina's builders have improved on last year's strong pace of construction, breaking ground for 240 units to the end of March, up 41 per cent from the corresponding period in 2011. Moving forward, steadily advancing new home supply will pose some challenge to starts as at the end of March, units under construction and those in inventory totalled 950 units, 41 per cent higher than the previous year. Nevertheless, continued wage and employment growth along with stronger in-migration will mitigate some of the impact of advances in house prices and carrying costs, and sustain strong demand for single-detached housing. As well, anticipated resale price gains, although down from recent years, will provide a boost to demand for new homes as homeowners take advantage of the increased equity in their existing homes and purchase new houses with more amenities. Collectively, these factors will help sustain a strong pace of single-detached production through 2013.

New House Price Index to rise through 2013

In 2011, Statistics Canada's New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, recorded a five per cent year-over-year increase for Regina. Given heightened demand for newly developed lots last year, Regina's land component of the NHPI accounted for the bulk of the gains in 2011. Concurrently, the brisk pace of both residential and non-residential construction also exerted upward pressure on the costs of labour and building materials, fuelling an uptick in the house-only component of the NHPI. While the strong pace of new home construction expected this year and next will maintain upward pressure on the NHPI, completion of several labour and capital intensive projects this year such as the refinery expansion will ease some of these pressures going forward. As a result, anticipated NHPI gains of 4.4 and 4.2 per cent this year and next will represent the lowest increases since 2002.

Encouraged by growing wages and historically low mortgage rates, new homebuyers in Regina continue to demonstrate an affinity for higher-priced homes with more amenities. From 2010 to 2011, 32 per cent of all single-detached absorptions occurred above $450,000, significantly higher than 21 per cent in 2009. Driven in large part by this compositional shift, the average absorbed price for single-detached homes rose to $457,947 in 2011, up 4.3 per cent from the prior year. Many of the homes absorbed thus far in 2012 were based on orders placed in 2011, when the economy was in the midst of an impressive growth spurt. As a result, the movement to higher price ranges has persisted into the first quarter of 2012 with 38 per cent of all single-detached absorptions transpiring above the $450,000 price mark. The movement to higher-priced homes is expected to slow over the forecast period, however, constrained by the combination of relatively weaker resale price gains, rising mortgage rates, and continued advances in monthly carrying costs. Consequently, the average absorbed price of single-detached homes will rise modestly by recent standards, increasing 2.9 per cent to $471,000 in 2012, prior to recording a 2.3 per cent uptick to $482,000 next year.

Multi-family starts to rise in 2012, moderate next year

Following a 15 per cent increase to 736 units in 2011, multiple-family starts, which consist of semi-detached units, rows, and apartments, will increase to 1,100 units in 2012 prior to moderating to 950 units next year. Low apartment vacancy rates, coupled with incentives from multiple levels of government, have fuelled an uptick in rental construction in recent years. Units designated for the rental market accounted for 29 per cent of all multi-unit starts in Regina last year. Given expectations of strong rental demand and the continuing incidence of low rental apartment vacancy rates, rental units will comprise a sizable proportion of overall multi-unit starts this year and next.

Concurrently, demand for ownership oriented units will continue to be fed by an expanding population base, particularly from new and existing residents seeking a lower priced option to the single-detached sector. As well, first time homebuyers' income tax credits administered by both the federal and provincial governments will also help support multi-unit demand over the forecast period. Meanwhile, owing to lifestyle advantages for some buyers, apartment and row style condominiums, in particular, will remain attractive for Regina's empty-nesters looking to downsize and capitalize on the accumulated equity in their existing homes.

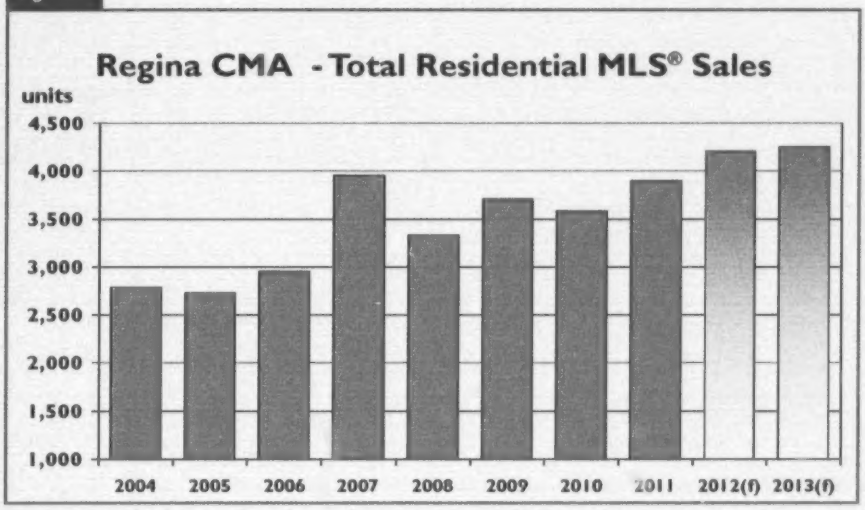
While demand for multi-family housing will remain strong over the forecast period, the heightened pace of starts in the opening months of 2011 has fuelled an increase in the overall supply of multi-family units. At the end of March, the supply of multi-family units totalled 1,049 units, the highest in nearly 30 years. This will be a restraining factor in 2013.

RESALE MARKET

MLS® Sales to increase in 2012 and 2013

Anchored by historically low mortgage rates, solid employment gains, and an expanding population base, Regina's resale market also recorded marked improvements in 2011. The 3,899 resale transactions tallied in 2011 marked an 8.9 per cent improvement from the prior year, the second highest sales tally since 1980. Faced with low rental apartment vacancy rates, some new residents by-passed the rental market and looked to the resale market to meet their housing needs. As well, low mortgage rates, especially when contrasted with advancing rental costs, helped maintain a narrow spread between homeownership and rental costs last year, encouraging some residents to transition from rental to homeownership. In addition, given the relatively wide choice of homes available last year, some residents

Figure 3



Source: CREA, CMHC Forecast (f)

chose to upgrade or downsize their existing homes as they saw fit, taking advantage of the accumulated equity in these homes.

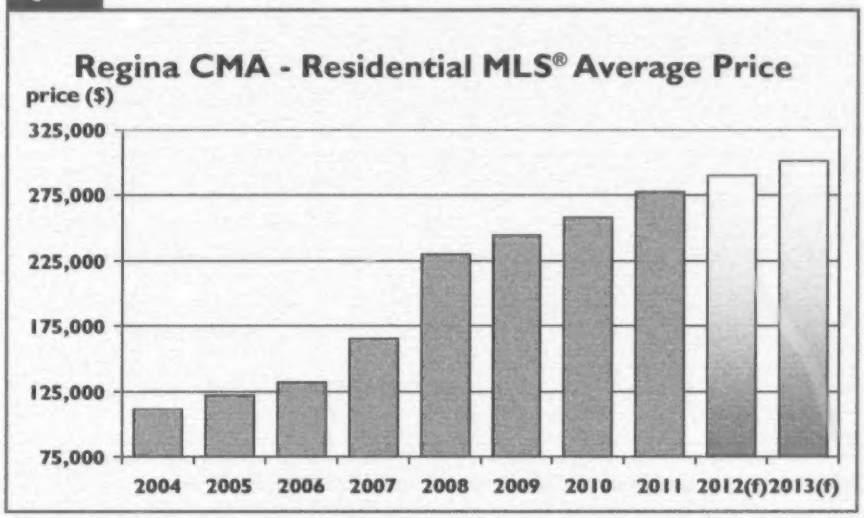
Moving forward, demand for resale homes is expected to build on this strong performance, supported by job gains, rising incomes, low mortgage rates, and migratory in-flows that we project will rise to record highs over the next two years. Low rental apartment vacancy rates this year and next will continue to support rent increases, thus maintaining a narrow spread between renting and owning and fast-tracking homeownership decisions by some households. In addition to the above, resale price gains in recent years will compel some households to take advantage of the equity accumulated in their homes by selling their current homes and trading up or down as they see fit. Further contributing to increased sales are public sector incentives in the form of $5,000 and $10,000 federal and provincial first-time homebuyer income tax credits, respectively, which will motivate some households to make the move towards homeownership. Hence, following last year's strong performance, CMHC anticipates improvements in resale transactions over the next two years with annual sales of 4,200 and 4,250 in 2012 and 2013, respectively.

Sales of higher priced homes contribute to rise in average price

Last year, low mortgage rates in conjunction with solid employment and wage gains helped fuel demand, resulting in a 7.5 per cent increase in Regina's average resale price. Driven by similar factors, existing home prices in Regina will rise 4.5 per cent to $290,000 this year, followed by a 3.8 per cent uptick to $301,000 in 2013. As was the case in 2010 and 2011, gains in the average resale price this year and next will be buoyed by the sustained shift to sales of homes in higher price ranges as homebuyers take advantage of historically low mortgage rates and equity gains to purchase higher priced homes with more amenities.

While the combination of low mortgage rates and job and wage growth will help maintain the shift towards higher priced homes over the forecast period, a relatively high supply of resale homes as well as competition from the well supplied new housing

Figure 4



Source: CREA, CMHC Forecast (f)

market will ensure that price growth is modest by recent standards. As noted earlier, new home supply is elevated this year, and although marginally lower than a year prior, active listings in March were among the highest in history. Price gains from previous years will continue to encourage more homeowners to list their homes, moderating some of the upward price pressures that would otherwise result from the increased pace of sales.

RENTAL MARKET

Average vacancy rate to remain low

With Regina's robust economy and strong labour market maintaining a steady influx of migrants, rental apartment vacancy rates are expected to remain relatively low over the forecast period. Apartment vacancy rates will rise slightly to 0.8 per cent in October 2012, up from 0.6 per cent a year prior. This will be followed by an additional uptick in vacancies to 1.0 per cent in October 2013. Additions to the rental universe in the form of newly-constructed units, as well as continued competition from the secondary rental market will provide the major impetus for the increase in the average vacancy rate. At the end of March 2012, 219 rental units were under varying phases of construction, an indication of pending increases in rental apartment supply in the months ahead. Meanwhile, CMHC's October 2011 Rental Market Survey revealed that 23 per cent of all condominium apartments had made their way into the secondary rental market, up from 15 per cent a year prior. Going forward, low vacancy rates, coupled with various incentives from multiple levels of government, will ensure that the increased pace of rental construction persists.

Figure 5

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

Moderate increases in average monthly rent through 2013

In spite of gradually rising apartment vacancy rates, Regina's expanding population and active job market will help ensure that demand for rental accommodation remains strong over the forecast period. This will sustain rental demand over the next two years, and spur increases in average rents, albeit at a moderate pace as property managers seek to forestall costly tenant turnover. Hence, following a $51 increase in monthly rents last year, the average monthly rent for a two-bedroom apartment is forecast to advance $38 to $970 in the October 2012 survey. Next year, buoyed by additions of newer units at the higher price ranges, average monthly rent for a two-bedroom apartment is projected to climb to $995.

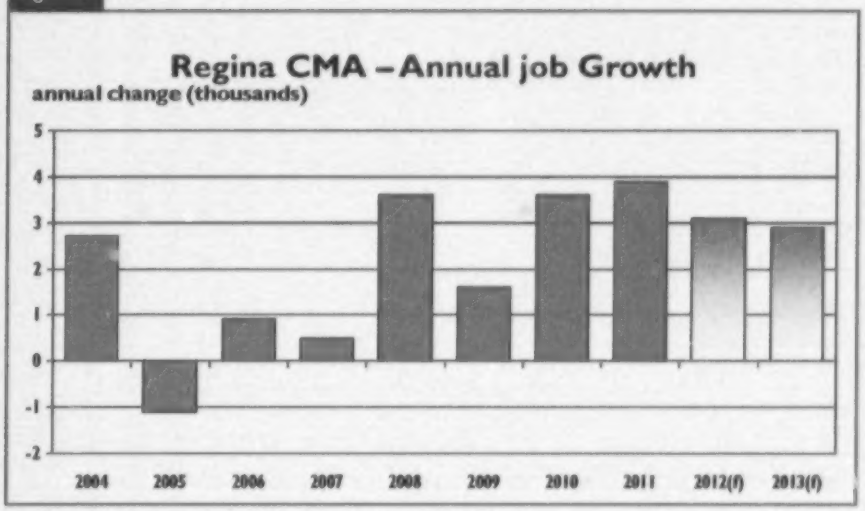
ECONOMIC OUTLOOK

Employment expansion to continue through 2013

Despite uncertainty in the global economy, increased demand for several commodities bolstered local production and strengthened economic activity across Regina in 2011. The potash market recorded major gains, with prices rising in tandem with demand and production through the bulk of the year. The energy sector also recorded gains in 2011, indicative by the growth in the number of rigs drilling which ranked well above the prior year's level of activity. At the same time, Regina's economy also benefitted from the heightened pace of both public and private sector infrastructure spending last year.

Collectively, the above factors helped energise Regina's economy and labour market last year. Following a 3.1 per cent expansion in 2010, average

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

employment advanced 3.3 per cent last year, representing the addition of 3,900 positions. Notably, all of these were full-time positions which helped fuel a 6.6 per cent growth in Statistics Canada's average weekly earnings, motivating large numbers of job seekers to enter into the labour market. At 72.9 per cent in 2011, Regina recorded its highest labour market participation rate since 1991. Job creation outstripped additions to the labour force, nudging the unemployment rate down to 4.7 per cent last year from 4.8 per cent a year prior, among the lowest of CMAs.

Elevated commodity and energy prices will help boost capital spending this year and next, ensuring that Regina will continue to draw in large amounts of private sector investment in new projects. Major capital projects currently include the on-going $1.9 billion refinery expansion, which is scheduled for completion in 2012. As well, construction crews will be busy completing work on several commercial, transportation, highway expansion, and downtown redevelopment projects.

Tempering some of the optimism, however, is the persistently high Canadian dollar which continues to restrain exports to Saskatchewan's primary export market, the United States. As well, uncertainty about the global economy could drive down commodity prices, prompting reductions in the production of potash, natural gas, and oil. Overall, the stage is set for a 2.5 per cent gain in employment this year and a further increase of 2.3 per cent in 2013. This will be accompanied by a slight moderation in the unemployment rate from 4.7 per cent last year to 4.6 per cent in both 2012 and 2013.

Net migration expected to attain record high by 2013

Following a net in-flow of 2,856 people last year, net migration is expected to increase over the forecast period and attain record highs in 2012 and 2013. The Saskatchewan Immigrant Nominee Program (SINP) will continue to contribute to elevated in-flows of international migrants.

Meanwhile, strong labour market conditions this year and next will ensure that Regina retains one of the lowest unemployment rates in Canada, a factor that will help maintain its appeal to migrants in other centres. Under these conditions, we expect migration to the Regina CMA will total 4,600 people in 2012 prior to recording a slight uptick to 4,650 persons in 2013.

MORTGAGE RATES

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Regina CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	3,704	3,581	3,899	4,200	7.7	4,250	1.2
MLS® New Listings	6,219	6,146	6,301	6,400	1.6	6,600	3.1
MLS® Average Price ($)	244,088	258,023	277,473	290,000	4.5	301,000	3.8
New Home Market							
Starts:							
Single-Detached	569	708	958	1,050	9.6	1,050	0.0
Multiples	361	639	736	1,100	49.5	950	-13.6
Starts - Total	930	1,347	1,694	2,150	26.9	2,000	-7.0
Average Price ($):							
Single-Detached	38[illegible]43	438,979	457,947	471,000	2.9	482,000	2.3
Median Price ($):							
Single-Detached	371,438	409,016	417,651	430,000	3.0	442,000	2.8
New Housing Price Index (% chg.)	5.6	5.2	5.0	4.4	-	4.2	-
Rental Market							
October Vacancy Rate (%)	0.6	1.0	0.6	0.8	-	1.0	-
Two-bedroom Average Rent (October) ($)	832	881	932	970	-	995	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	115,300	118,900	122,800	125,900	2.5	128,800	2.3
Employment Growth (%)	1.4	3.1	3.3	2.5	-	2.3	-
Unemployment rate (%)	4.3	4.7	4.7	4.6	-	4.6	-
Net Migration	3,585	3,094	2,856	4,600	61.1	4,650	1.1

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 27, 2012.

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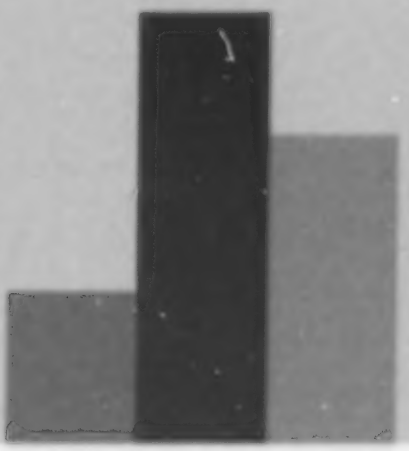

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